

Chapter 2

Definitions

The following terms are used throughout this guide. We suggest that the reader become familiar with these terms and the associated WSDOT Audit Office definition.

Actual Cost Agreement

The name Actual Cost Agreement does not mean that a consultant will be reimbursed for all actual costs incurred for performing a job. Costs are reimbursed subject to the limitations described in the agreement, contract, or specified criteria. These limitations can be very restrictive. An example is interest on borrowed money. This is a cost of doing business, yet it is not reimbursable as an actual cost of doing business.

Actual Costs

Amounts determined on the basis of costs incurred and supported by original source documentation, as compared to forecasted costs, or costs thought to have been incurred, or costs based on historical averages.

Administrative Expenses

Costs which are not directly identified with any one item of work, but when taken as a whole, support or contribute to all activities of a firm.

Advance Agreement

An understanding included in an agreement by the contracting officer and the consultant as to the treatment of special or unusual costs not already included in FARs. The agreement must be in writing, executed by both the contracting parties, and incorporated into applicable current and future contracts. An advance agreement shall contain a statement of its applicability and duration. See 48 CFR 31.109.

Agreement

A contract. A binding, legal, document which identifies the deliverable goods and services being provided, under what conditions, and the method of payment for such services. The document may include federal criteria and state requirements which will have to be adhered to by the state and the consultant. The document will usually indicate start and finish dates, record retention requirements, and other pertinent information relative to the actual work to be performed.

All-Inclusive Hourly Rate Agreement

An agreement using an hourly rate developed for billing purposes which may include a firm's actual direct labor cost, overhead rate allowed or negotiated, and negotiated profit margin. Provisional hourly rates generally are temporary and will

be adjusted by an audit. Negotiated hourly rates may be used for the life of an agreement, or may be adjusted from time to time depending on the agreement provisions.

Allocable

A cost is allocable (to an agreement or cost of work being performed for the government) if it benefits both the agreement and other work of the firm and the cost can be distributed in reasonable proportion to the benefits of incurring that cost.

Allowable (Cost)

An item of cost which can be billed directly as a project cost or indirectly as an overhead cost by the consultant.

Audit Cycle

The series of steps auditors go through in completing their assigned work. The process includes a review of a firm's permanent file maintained by the Audit Office, preliminary audit work including scheduling of billed costs, arranging an appointment to conduct the audit, entrance conference, field work, review of a firm's documentation, exit conference, report write up, submittal of draft report to auditee for comment, and issuance of the final report.

Audit Resolution Process

The process WSDOT management and the auditee go through in resolving audit findings. It may involve negotiation of a settlement, legal counsel, and court procedures.

Audit Trail

The auditable record left by a transaction in a firm's accounting records from original source document into subsidiary ledgers through the general ledger and into financial statements and invoices.

Auditee

The firm or person being audited.

Billing Rate

The hourly rate being charged for work on an agreement. For a cost plus fixed fee agreement, the billing rate will be exactly the same as the employee's actual payroll rate. For an all-inclusive hourly rate agreement, the billing rate will include the actual payroll rate plus an overhead percentage plus an amount for fee.

Close Without Audit

All agreements and subagreements over \$100,000 are required to have a post audit. Agreements less than \$100,000 will be reviewed at the WSDOT Audit Office and usually will be closed without a formal audit.

Common Control

Exists in related party transactions when business is conducted at less than arm's length between businesses and/or persons that have a family or business relationship. Examples are transactions between family members, transactions between subsidiaries of the same parent company, or transactions between companies owned by the same person or persons.

Contracting Officer

A title sometimes used in private and public sectors to indicate the person having authority to enter into a contract or agreement for goods and services.

Corporation

A business structure where stock is made available for purchase. The firm may have a president, vice president, treasurer, and secretary. Anyone working for the corporation is usually paid an hourly wage rate or is salaried. In theory, the liabilities of the individual stock owners are limited in this type of business structure. (Seek a good attorney for information on this subject.)

Cost Center

A grouping of incurred costs identified with a specific final cost objective.

Cost of Money

Facilities capital cost of money in an imputed cost determined by applying a cost-of-money rate to facilities capital employed in contract performance. It is included in a firm's overhead rate.

Cost Plus Fixed Fee Agreement

An agreement in which all the cost factors except fee are actual cost. The fixed fee is a set dollar amount in the agreement.

Cost Principles

The underlying basis for determining how costs should be recorded when they are allowable or unallowable, and the specific basis for treating various costs as either allowable or unallowable.

Courtesy Audit

An audit performed for another state, another state agency, or city or county government. The audit could be a preaward, interim or post, with the requesting agency paying for the cost of the audit.

Direct Cost

Any cost that can be identified specifically with a particular final cost objective, i.e., a project related cost. Direct costs would include labor, materials, and reimbursables incurred specifically for an agreement. It is irrelevant whether or not the costs are actually billed. All direct labor costs must be included in the direct labor base. All costs for lump sum agreements must be included in direct costs.

Entrance Conference

A meeting between the auditor and the auditee, at which time the purpose and scope of the audit are discussed.

Exit Conference

A meeting held after the auditor completes field work at the auditee's place of business. Topics of discussion are preliminary findings of the audit, which are subject to change and revision during the supervisory work paper review process, and/or a formal request for the auditee's response to the draft audit report.

Federal Acquisition Regulations (FARs) Code of Federal Regulations No. 48

Sets the criteria for allowable and unallowable costs for federally funded agreements. Since WSDOT does not have a separate state regulation, we apply FARs to all agreements regardless of the source of funding.

Finding

A statement of noncompliance with the terms of an agreement. A finding includes the condition, criteria, cause, effect, and a recommendation for correction.

General Administrative Expenses

Any management, financial, and other expense which is incurred by or allocated to a business unit, and which is for the general management and administration of the business as a whole.

Indirect Cost

Any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives or an intermediate cost objective. Consultants recover their indirect costs in their overhead rate.

Ineligible Costs

A firm's expenditures for labor, materials, equipment, equipment rental rates, or any other cost found to be unallowable for overhead purposes.

Interim Audit

An audit, which may be of limited scope, during the life of an agreement. The purpose is to determine the actual allowable costs to date, review and adjust a firm's overhead rate, and audit a prime consultants subcontracts. This audit follows a standard audit plan.

Internal Control

The plan of organization and methods and procedures adopted by management to ensure that its goals and objectives are met; that resources are used consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Lump Sum Agreement

An agreement where the method of payment for delivery of goods and services is one set amount that includes salaries, overhead, and profit with no adjustments. Once the lump sum amount is agreed upon, the services or goods must be provided regardless of the actual cost for the consultant.

Negotiated Hourly Rate Agreement

An agreement in which hourly billing rates that include labor, overhead, and fee are negotiated in advance and are listed for a 12-month period.

Overhead Expenses

All allowable general administrative expenses and fringe benefit costs (sometimes called payroll additives). Depending on the size of the firm, these costs may or may not be separately identified on a schedule of overhead costs. (See Chapter 6.)

Overhead Rate

A computed rate developed by adding all of a firm's general and administrative costs, plus fringe benefit costs together, then dividing by a base value, usually direct labor, to get a percentage. This rate is applied to direct labor to allow a firm to recover the share of indirect costs allowable to the agreement.

Partnership

A business with two or more co-owners, who may or may not have established salaries. The liabilities of the firm are the owners' responsibility. (Seek a good attorney for information on this subject.) Owners may be treated the same as sole proprietors by the auditors regarding the establishment of a salary rate.

Post Audit

An audit done after the completion of all work by a consultant. Its scope may include all billed costs by the prime consultant and/or any subconsultants providing services. This audit follows a standard audit plan.

Preaward Audit

An audit conducted on behalf of WSDOT management for the purpose of validating financial information supplied by a potential consultant. The audit may require an on site visit or information may be reviewed at the Audit Office in Olympia. Upon completion, the information is provided to the WSDOT contracting officer in an audit report for use during agreement negotiations. This audit follows a special preaward audit plan.

Provisional Hourly Rate Agreement

An agreement in which hourly billing rates that include labor, overhead, and fee are negotiated in advance, but are subject to adjustment after an audit determines actual labor and overhead rates.

Reasonable Cost

A cost, if in its nature and amount, does not exceed that which would be incurred by a prudent person in the conduct of competitive business.

Record of Negotiation

A summary memorandum prepared by the WSDOT contracting officer regarding the reconciliation between the consultant's proposal and the WSDOT estimate. It includes contract rate negotiations, disposition of significant matters in the preaward audit report, and reasons why audit recommendations were not followed. It is required by 48 CFR 42.706(b).

Single Audit

In theory, an audit which satisfies the needs of all parties involved with funding or doing business with an organization, either private or public. In reality, this is rarely the case because funding agencies still request that their audit groups obtain specific information peculiar to their operations policies and procedures.

Sole Proprietorship

A business with one owner. From an audit standpoint, this person may not have an established salary, but instead may rely on draws from the profits of the firm to obtain their payment for services.

Source Documentation

Original documents, including but not limited to time sheets, invoices, room receipts, rental slips, gasoline tickets, canceled checks, tax returns, insurance policies, minutes of corporate meetings, etc., which support the costs recorded in the firm's accounting ledgers and which may be used for billing purposes to the government or for income tax purposes.

Task Assignment Agreements

An agreement without a definite description of work, but with a specified time period. Tasks which require the consultant's expertise are assigned as needed. Each task will have its own maximum payable amount. The total amount paid on all of the tasks cannot exceed the total amount of the agreement.

Unallowable (Cost)

An item of cost which cannot be billed directly or indirectly by a consultant. These types of costs, if found during an audit will be purged from the costs billed directly, or from those billed indirectly via an overhead rate or cost center. When an unallowable cost is incurred, its directly associated costs are also unallowable.

Verify

The act of tracing a transaction from a ledger back to the original supporting document.

Work Sheet

The consultant's written documentation to support in-house charge-out rates for such things as computer time, photocopies, and billing rates where payroll data is not available. It will show all costs going into the charge-out rate and how revenues from the charges are recorded in the firm's general ledger.

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